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JAMES R. BROWNING, C

IN THE

Supreme Court of the United States

OCTOBER TERM, 1960.

No. 501

BINKS MANUFACTURING COMPANY,
Petitioner,

vs.

RANSBURG ELECTRO-COATING CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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THE BLAKEMORE-WARREN PRINTING COMPANY, CHICAGO

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Petitioner, Binks Manufacturing Company, prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit entered in the above entitled case on July 27, 1960.

THE OPINION BELOW.

The Opinion of the United States Court of Appeals for the Seventh Circuit is reported at 281 F. 2d 252 and perti-

nent portions are printed in the Appendix to this Petition (Pet. App. 1-8).*

JURISDICTION.

The Judgment of the United States Court of Appeals for the Seventh Circuit was entered on July 27, 1960. The jurisdiction of this court is invoked under 28 U. S. C., Section 1254(1).

STATEMENT OF QUESTIONS FOR REVIEW.

1. Can a patent owner, dominating an industry, tie in with a patent license* an equipment lease requiring patent licensees, in the fees charged, to pay for unpatented staple articles or commodities and for services?

2. Can a patent owner, dominating an industry, in leasing equipment require the lessee to take a license under a package of unwanted patents?

3. Can a patent owner, dominating an industry, in leasing equipment require lessees, in outstanding tied-in patent licenses, to grant back free licenses on "any inventions, improvements, or letters patent, domestic or foreign, comprehending subject matter usable in any way in connection" with unpatented subject matter?

4. Is a patent owner dominating an industry in leasing

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* P.A. designates Plaintiff's Appendix below.
D.A. designates Defendant's Appendix below.
Pet. App. designates Petition Appendix accompanying the Petition.
R.A. designates Defendant's Answers to Plaintiff's Requests for Admissions.
Int. designates Defendant's Answers to Plaintiff's Interrogatories.
Pertinent R.A. and Int. are printed in the Petition Appendix.

* See appended admissions of Defendant in answers to Plaintiff's Request for Admissions and Interrogatories, which in themselves outline the program. (pages 9 thru 50)

equipment under licensed letters patent, fraudulently procured from the Patent Office, barred from enforcement of such patents?

STATUTES INVOKED.

The statutory provisions of the anti-trust laws here involved are 15 U. S. C. Sections 1, 2, 14, 15, and 26; and the provision of the patent laws is 28 U. S. C. Section 1338, all of which are printed at pages 9-11 in the accompanying Petition Appendix.

STATEMENT OF THE CASE.

PLEADINGS IN GENERAL.

This suit was commenced on October 11, 1956 by Plaintiff's filing an action for Declaratory Judgment, but in view of Defendant's counterclaim charging Plaintiff with patent infringement (28 U. S. C. § 1338(a)), Plaintiff's complaint, on its motion, was dismissed. Plaintiff thereupon filed a cross-counterclaim charging Defendant with unfair competition in violation of the Anti-Trust Laws, and misuse of patents (15 U. S. C. §§ 1, 2, 14, 15 and 26; 28 U. S. C. § 1338). On order of the Court, substitute pleadings (P.A. 1-45) including all amendments were filed. The basis for federal jurisdiction in the court of first instance was the foregoing Statutes.

PLAINTIFF'S BACKGROUND AND SK 661 PAINT APPLICATOR IN SUIT.

Plaintiff has been in the spray painting supply business since before the turn of the century, and sells directly to customers such catalogue items as spray guns, and allied equipment for the spray coating field.

In collaboration with Midwest Research Institute (P.A. 673), Plaintiff developed a simple electrostatic liquid spraying device or applicator (P.A. 711, 952-4). This applicator or emitter (SK 661 (P.A. 905)) here in suit (as stipulated by the parties (P.A. 233)) consists of two integral concentric spaced stationary disks at the outer edge of which liquid freely emerges from between the disks (R.A. 34 (P.A. 199)) to be atomized by an electrostatic field.

In the course of correspondence (P.A. 894 through 911) between the parties, in which Plaintiff inquired if Defendant had any license forms on the basis of a single royalty for each sale of emitter (SK 661), Defendant in its last letter (P.A. 911) advised Plaintiff it could not license on any other basis than that one on which the royalties were based upon the usage by the customer of coating material passing through the licensed spray equipment. Also, in its answer to R.A. 10 (P.A. 195), Defendant admitted it notified Plaintiff not to sell its SK-661 emitter or sprayer *"for electrostatic coating to any party who was not a licensee of Defendant."* Defendant's hundreds of licensees had already in every instance leased Defendant's equipment (P.A. 196) under agreements by which Defendant furnished all replacements and repairs (P.A. 201-2) and Plaintiff was thus foreclosed from entering this market.

DEFENDANT'S BACKGROUND, PATENT ACQUISITION AND LEASING PROGRAM.

Defendant's predecessor was initially a small Indiana concern engaged in the business of selling kitchenware such as canisters, bread boxes, and the like. However, for over 15 years, beginning in 1942 (P.A. 762), Defendant and its predecessor have been engaged in acquiring adversely owned patents or patent rights, and granting *patent licenses, coupled in every instance with leases* of its equipment for electrostatic spray coating systems. It has grown to a size wherein it is the only supplier of airless electrostatic spraying systems (P.A. 47), and now collects rental fees in excess of 3 million dollars a year (Int. 85 (P.A. 58)).

DEFENDANT'S INITIAL OR PRIOR ELECTROSTATIC SPRAY PROCESSES.

The spray coating system first licensed and leased in 1944 by the predecessor Ransburg partnership was known as the *No. 1* process (Px.-EEEE, P.A. 854); and which is covered by expired Pugh Patent No. 1,855,869 (P.A. 1073), acquired in 1943 by Defendant from Western Electric Co. (P.A. 762). It consists basically in employing an electrostatic field for depositing liquid particles delivered or sprayed into the field by a conventional air spray gun. Defendant admits that in this prior art process electrostatic atomization of the liquid occurred (P.A. 204).

The Defendant also marketed a process known as "*electrostatic detearing*" which like its No. 1 process is also prior art with respect to Defendant's Starkey *et al.* method and apparatus patents Nos. 2,685,536 and 2,794,417 here in suit (P.A. 1021-1037) (R.A. 61(a), (P.A. 202)). Detearing is a process (P.A. 857) in which articles having a wet coating are subjected to the action of an electrostatic field which serves to pull off or "detear" excess portions of the wet coating. The technique of electrostatic detearing is described in Gravley United States Patent No. 2,359,476 (P.A. 1115), acquired by Defendant in 1943 by assignment from The Brush Development Company (P.A. 765).

DEFENDANT'S LEASED COMMERCIAL NO. 2 CENTRIFUGAL AIRLESS TYPE PROCESS WHICH USES A ROTATING BELL OR DISC.

In Defendant's No. 2 electrostatic spraying system, licensed and leased as early as 1950, a rotating or centrifugal bell or disc (P.A. 877) is substituted for the air gun of the No. 1 system. This disc or bell rotating at 900 R.P.M., not only feeds the liquid to the one side of an

electrostatic field, but also performs an indispensable part in the atomization, dispersion and deposition of the liquid (P.A. 350-370). The evidence shows that Defendant's No. 2 system is inoperative without the use of centrifugal means in effecting atomizing and dispersion of liquid (P.A. 350). *Defendant in 1950-4 licensed and leased 171* (P.A. 51) *of its No. 2 systems before it had any patents covering same*; including the Starkey patents in suit.

The Defendant, in obtaining its Starkey *et al.* patents in suit, represented the leasing of its No. 2 centrifugal bell or disc system as constituting commercial success of the subject of such patents. The No. 2 system did not effect atomization and dispersion of liquid *solely* by the electrostatic field (P.A. 350-370) as was urged to be the *"heart"* of the Starkey *et al.* inventions (Pet. App. Pages 74-75).

AGREEMENTS BY WHICH DEFENDANT ACQUIRED PATENT RIGHTS FROM POSSIBLE COMPETITORS.

In September, 1944, the Ransburg partnership entered into an agreement with Behr-Manning Corporation (P.A. 771) in which it gave exclusive rights under the aforesaid Pugh patent No. 1,855,869 (P.A. 1073) (which it had by then acquired from Western Electric Co. (P.A. 762), and other patents in the field of spraying *solid particles*, such as abrasives, flocking or fiber shaped particles) to Behr-Manning in exchange for an exclusive license under thirty-eight patents and applications (then owned by Behr-Manning) for the field of electrostatic spraying of *liquid particles*. This agreement *divided up the field* between these two concerns.

In October of 1948, Defendant entered into an agreement with the Research Corporation of New York (Px.-VV, P.A. 779) by which Defendant received exclusive rights

under two additional United States patents dealing with electrostatic deposition processes. In addition, Defendant acquired the aforesaid Gravley patent No. 2,359,476 (P.A. 1113) from The Brush Development Company in an instrument dated May 3, 1943 (Px.-TT, P.A. 765).

In Defendant's answer to Request for Admission 58 (P.A. 202) the Defendant admits:

> "that in no instance where it has acquired patent rights from other parties has any of such parties gone into competition with Defendant in the electrostatic liquid spraying field."

DEFENDANT'S MARKETING PROGRAM.

Since its entry into the field of licensing electrostatic spray coating processes, Defendant has used a combined patent licensing and equipment leasing arrangement (P.A. 114-151). The Defendant does not sell equipment to users (R.A.-1 (P.A. 194)). It collects its fees from a combination of the following charges: (1) an initial fee of $5,000 to $40,000 (R.A. 38, (P.A. 200)) which is payable to Defendant upon installation of the leased equipment and *completely pays for the equipment* (Int. 10, (P.A. 47)); (2) a minimum monthly fee or (3) a percentage of the cost of coating material which passes through Defendant's equipment per month, if this sum is greater than the minimum fee provided in (2). On the basis of these fees, Defendant collects millions of dollars a year (Int.-85, 86 (P.A. 58)), from some of the largest industrial concerns in the United States (Ex. B in answer to Int.-3(c), (P.A. 85)).

During an early portion of this suit, the total number of Defendant's licensees was *732* (Int.-3(a), (P.A. 46)). *All* of the more than *300* "No. 2" licensees of Defendant have leased Defendant's equipment (R.A. 17 (P.A. 196)).

The contracts between Defendant and its licensees are prepared by Defendant and are normally in printed form (R.A. 44, 45 (P.A. 201)). The terms of the Defendant's licenses have not varied substantially from the outset of leasing of the No. 1 process to the present day leasing of both the No. 1 and the No. 2 processes (Int. 170 (P.A. 74)).

Defendant in its agreements (P.A. 114) represents that it is the owner of or otherwise has the right to grant licenses under applicable inventions and letters patent. Where Defendant was requested by the licensee, as in the example of the Avco agreement (P.A. 886), to list applicable patents, it listed *a large package of patents even though none applied to the leased equipment* (R.A. 90(b), (P.A. 211)).

Defendant retains title (R.A. 71 (P.A. 205)) in and reserves the right to make changes in the equipment it supplies, and for which it is fully paid by the initial fee; and in consideration of the required fees it agrees to supply replacement parts (*which include staple commodities*) (R.A. 54-55 (P.A. 202)), as well as to supply services. Defendant reserves the right to cancel without cause after three years. The contracts expressly disclaim any representation outside of the written instrument.

At the start of licensing of the No. 2 system, in 1950, Defendant included in its (R.A. 19, (P.A. 196)) agreements for the No. 2 system, a "Future Inventions" clause in which the user was obligated to license back to Defendant, royalty-free, with the *right to sub-license*, any inventions, improvements, or letters patent, domestic or *foreign*, from any source relating to methods and/or apparatus involving electrostatic atomization of liquids or the deposition of electrostatically atomized liquids. This requirement to license back thus *embraced all improvements on prior and unpatented electrostatic spraying sys-*

tems and further extended not only during the period of the agreement, but for two years thereafter.

Over *130* outstanding agreements containing such "Future Inventions" clauses *are still in force and effect*, although Defendant began in 1955 to use a new form of agreement without this clause.

In 1953, after the No. 1 process had been licensed for nine years and the No. 2 process had been licensed for several years, the Defendant sent letters to its then existing licensees (Px.-S, Z-1, P.A. 730, 731) advising them that licenses might be available from Defendant which would not involve rental of Defendant's equipment. To take advantage of this offer, the user would have to return all of the leased equipment to Defendant, *without refund* of any of the large initial fee (Px.-LLLL, P.A. 542) (covering the entire cost of the leased equipment) before proceeding to practice the licensed subject on the basis of a slight reduction in the minimum monthly fee. No licensee ever accepted the terms of this offer (Px.-LLLL, P.A. 539).

ARGUMENT.

QUESTION 1.

A patent owner, dominating an industry, cannot tie in with a patent license an equipment lease requiring patent licensees, in the fees charged, to pay for unpatented staple articles and services.

The decision of the Court of Appeals herein to the contrary is in conflict with applicable decisions of this Court, and of the Ninth Circuit in Stearns v. Tinker and Rasor 252 F. 2d 589 (1957).

Defendant Dominates the Field as There Are Admittedly No Other Suppliers, Replacement Part Dealers, Service and Maintenance Concerns and Secondhand Dealers.

Here, the tieing in with a patent license of an equipment lease is itself *per se* a violation of the anti-trust laws, but Defendant has gone much further than that in its illegal program of agreements which also tie in unpatented staple articles and services.

In the electrostatic spraying field, Defendant dominates a very substantial segment of the business. It admits that there are no others engaged in the manufacture and sale of airless electrostatic spraying equipment (P.A. 47), and that 66% of its users of its prior No. 1 air-type system have now replaced same with Defendant's airless No. 2 system (Int. 169 (P.A. 73)). Undisputed facts are evidenced by the following noted admissions and answers wherein Defendant admits:

> "that prior to the issuance of its process patent No. 2,685,536, as far as is known to defendant, it was the sole manufacturer and supplier in this country

of airless electrostatic spraying systems." (R.A. 41 (P.A. 200)).

"there was no airless electrostatic spray coating system on the market outside of those being marketed by defendant" and that "the only source, as far as defendant knew, for such systems was the defendant." (R.A. 85(a) and (b) (P.A. 210)).

"as far as it knows there are no secondhand dealers in the United States handling electrostatic airless spray coating systems." (R.A. 51 (P.A. 201)).

"as far as it knows there is no servicing organization in the United States outside of itself for servicing its so-called No. 2 airless electrostatic coating system." (R.A. 52 (P.A. 201)).

"as a part of its patent licensing and leasing program, it renders engineering and technical services to its licensees," and also that it is compensated for same "from fees paid by licensees." (Int. 11(a) (P.A. 47)).

It or anyone else has not "sold or offered for sale any secondhand or used equipment of Defendant for airless electrostatic spray coating." (Int. 89 (a) (P.A. 59)).

"in connection with its licensing and leasing program on airless electrostatic spraying systems it usually, as a part of the fees received by it, for the most part supplies the majority of replacement parts on the equipment furnished by the defendant to its licensees." (R.A. 54 (P.A. 202)).

Under the anti-trust laws, it is not necessary that it be shown that Defendant dominated the industry as to all forms of painting, as was properly held in *Oxford Varnish Corporation et al. v. Ault & Wiborg Corporation*, 83 F. 2d 764-766 (1936). "The ratio borne by Defendant's volume of business to the paint and varnish industry is not, we think, the measure by which monopolistic tendency of its contracts is to be determined." • • • "*Competitors may not negotiate with its licensees on an*

equal trading basis—they are wholly and completely shut out." (Emphasis ours.)

Here, as admitted in answer to Interrogatory 3 (P.A. 46), Defendant at the date of the filing of the complaint herein had granted *732* license-leases, and of which *463* were still in force and effect. (Int. 169 (P.A. 73)). Reference to the Exhibit "B" attached to and comprising part of the answer to Interrogatory 3 (P.A. 85-112) reveals a very formidable list of the largest industries in the country, which are dependent solely upon Defendant for all equipment, parts and services in the airless electrostatic spraying field. Also, as noted from Defendant's list Exhibit M (P.A. 193), even ammunition, projectiles, etc., supplied to the United States Government by numerous concerns fully come within the scope of the market dominated by Defendant.

Defendant's dominant position in the industry was established by its program of acquiring patent rights from possible competitors, as distinguished from its own research. Contributing, significantly, to this dominance of the market was Defendant's cross license agreement with the Behr-Manning Corporation, which expressly and effectively divided the field of electrostatic spraying between them. (P.A. 171) contrary to the law of *Hartford Empire Co.* v. *U. S.*, 323 U. S. 386, 407 (1945). Further, Defendant admitted (R.A. 56 (P.A. 202)) that it included in its licenses such patent rights acquired from others.

The draft of the Behr-Manning cross license agreement was drawn up, and Defendant in its letter of November 13, 1944 (P.A. 869) in suggesting revisions said:

> "**Our greatest concern** and that to which we have given the **most thought and consideration** was the question of just how to word our future license agreements so that there could be no question in the minds

> of our users **that they were restricted from operating** in your fields, and still not create undue sales resistance for ourselves." (Emphasis ours.)

In reply, Behr-Manning in its letter of November 24, 1944 (P.A. 876-6a) said:

> "If this is the case and since no licenses have to your knowledge been granted in the flock or abrasive fields, we do not foresee difficulty or conflict with any of your existing licensees and it should not be difficult for you to **so limit your future licensees as to prohibit the employment of the patents** under which you have given us exclusive rights for abrasives and flock coated articles, in these fields." (Emphasis ours.)

Each party to the agreement had the right to sub-license others, and to bring suit for infringement on patents owned by it in its exclusive field. However, if a non-owner of a particular patent thought that its exclusive field was being invaded, the agreement specifically provided for such party bringing an action for infringement joining the owner of the patent as co-plaintiff. Each party, consequently, had substantial control over the patent rights of the other. This type of control, whether exercised or not, represents a conspiracy to monopolize or dominate a market in violation of the Sherman Act. *U. S.* v. *U. S. Gypsum Co.*, 333 U. S. 364; *U. S.* v. *Line Material Co.*, 333 U. S. 287; *U. S.* v. *New Wrinkle, Inc.*, 342 U. S. 371.

Further, Defendant admitted (R.A. 56 (P.A. 202)) that it included in its hundreds of license agreements such patent rights acquired from others. The network of agreements have thus of necessity affected an entire industry, in restraint of trade, as was condemned generally in *U. S.* v. *General Electric Co.*, 80 Fed. Supp. 989 (1948), and in *U. S.* v. *General Electric Co.*, 82 Fed. Supp. 753 (1949).

According to previous rulings of this Court, once it is shown that a licensor has a dominant position in the

market either by virtue of patents or otherwise, any tie-in agreements (such as equipment leases here) are *per se* a violation of both § 3 of the Clayton Act and § 1 of the Sherman Act, *International Salt Co.* v. *U. S.*, 332 U. S. 392 (1947); *Northern Pacific Railway Co.* v. *United States*, 356 U. S. 1 (1958).

Defendant's License-Lease Agreements Were Not Confined to Particular Patents Nor for the Duration of Any Patent.

In this regard the Court of Appeals said: "*Plaintiff failed to establish that Defendant has engaged in any activity beyond the license of rights incident to its patent monopoly.*" (Pet. App. 5.)

Nothing could be further from the truth, since for over four years prior to the issue of Defendant's allegedly basic Starkey and Ransburg method patent No. 2,685,536 on August 3, 1954 allegedly covering Defendant's No. 2 airless electrostatic system, Defendant admittedly had no patent protection thereon, and had actually in that period issued *171 licenses* as to such No. 2 system beginning on March 21, 1949 (Int. 40 (P. A. 51)). Further Defendant admits (Int. 81(a) (P.A. 57)) that none of its licenses were confined to the life of any patent or patents.

Defendant's Vice President, Harold Ransburg, in charge of sales, testified on the matter of licenses not being under particular patents as follows (P.A. 481-2-3):

> "Q. I want to now read to you Interrogatory 52 and its answer and then ask you a question about it:
>
> 'Q. Has defendant ever submitted a license under its Starkey patent alone without an accompanying proposed agreement for furnishing of equipment by the defendant company?'
>
> And the answer was:
>
> 'A. Defendant has never submitted any license limited to the Starkey patent alone.'

Q. Would that be true of all of the airless electrostatic coating licenses and leases that your company has issued?

A. *I believe that we have never submitted a license under any specific single patent.*

Q. *Well, as a matter of fact, did you bother in your department to keep any record of what patents were applicable to each of the licenses as you granted them?*

A. *No, we did not.*

Q. *Did anybody keep any such record?*

A. *Not to my knowledge.*"

"Q. I would like to read you Admission No. 84 and the answer and then ask you a question, sir.

'84-A. Beginning around March 21, 1949 and for several years thereafter, defendant leased and licensed its No. 2 airless electrostatic coating systems without having issued to it any letters patent affording the defendant exclusive patent rights to airless electrostatic spray coating.' And the answer was admitted.

'Q. As far as you know, was that true of most of those *171 licenses* that we referred to a moment ago?'

'A. Yes.'"

Q. Now, I would like to read to you another admission and ask you a question about it.

'57. Does Defendant admit that in its licensing program on electrostatic spraying systems it has for the most part used printed forms of licenses which *do not single out any particular patents by numbers, of those in the portfolio of the defendant?*' And the answer was yes.

Q. Is that true of practically all your licenses?

A. *Yes.*" (Emphasis ours.)

Defendant's Department Head, Howarth, in charge of installation services and sales engineering testified (P.A. 605):

"Q. *But you never undertook in any way to spell out any patents that were applicable, did you?*

A. *No. I wouldn't have any idea of just which ones would be applicable or not.*

Q. In other words, you were able to go ahead and

consummate these licenses without having detailed knowledge as to what patents were applicable?

A. That's correct.

Q. And that was true of all your sales force, as far as you know?

A. I would think so, yes." (Emphasis ours.)

Defendant's Sales Engineer, Milton F. Pleva, also testified (P.A. 614, 615):

"Q. Well, do you in any of your contacts, say, on the No. 2 system, *ever have occasion to tell a customer what patents are applicable?*

A. Well, I couldn't do that because I don't know." (Emphasis ~~ours.~~)

Pleva further testified in connection with negotiations for a lease with Mr. Wallin of Webcor that the lease-license would go on indefinitely as there was no time limit to the agreement (P.A. 625):

"Q. But, in any event, you made it plain to him that even if he had the equipment for fifty years he'd still have to pay the monthly fee or the royalties?

A. Well, I don't think I specifically pointed that out, sir, because he knows that. I mean, that is in the agreement.

Q. *It goes on indefinitely?*

A. *Yes, sir.*

Q. *There is no time limit?*

A. *Yes, sir, that's right."* (Emphasis ours.)

Under the law, the Lower Court erred in justifying Defendant's tie-in of patent licenses with equipment leases in a field it dominated, irrespective of whether such equipment was covered by patents. *International Salt Co.* v. *United States*, 332 U. S. 392 (1947); *Northern Pac. Ry. Co.* v. *United States*, 356 U. S. 1, 9, 10 (1958).

Defendant's Coupled License and Lease Agreements Admittedly Embraced Unpatented Parts and Services.

The Court of Appeals (Pet. App.) erroneously concluded that "The monopoly of defendant's patents was not extended by agreement to articles or supplies not covered by the patent."

In its answer to Plaintiff's Interrogatory 33 (P.A. 50), Defendant submitted Exhibit E (P.A. 152, 177) showing what type of its 45 forms of agreement, and which type of electrostatic system each of its 732 licensees had. In its answer to Interrogatory 36 (P.A. 50), Defendant submitted the attached *Exhibit G* (P.A. 182, 183) as showing a typical example of equipment furnished under its license-lease agreements.

Defendant's typical list of parts, *Exhibit G*, on its face clearly evidences the fact that unpatented parts were supplied by defendant under its license-lease agreements. Certainly, items such as **switches, alarm bell, cable, wire, oil hose, tubing, hose fittings, terminal puller, snap rings, pliers, tube pullers and spare electrical tubes** are all unpatented staple parts or conventional commodities as far as Defendant's process and system patents are concerned. Yet, customers, as part of a package deal, were forced to pay for such parts in order to get the license and lease; and there is no question about this in view of Defendant's admission that the aforesaid Exhibit G was typical of the equipment furnished under its lease agreements.

As to this matter of parts, Mr. Wallin of Defendant's *licensee* Webcor, said (P.A. 645-6):

> "Q. Have you ever had to acquire any replacement parts?
>
> A. No. All the parts in the equipment are covered by our charge.

Q. Well, I mean, has Ransburg from time to time furnished additional parts?

A. Oh, yes.

Q. You haven't gone out on the outside and bought any parts?

A. No, no.

Q. You considered that was all included in the contract?

A. That's right. **We even get hoses, connecting wires. The lead-in cable will break down, and that is furnished.**

Q. Well, you could buy that on the outside, if you wanted it?

A. We could, but why should we when we are paying for it.

Q. **So to that extent it has cut down the amount of business you have had to transact with outsiders as far as these parts are concerned, is that right? I mean third parties, people besides yourself and Ransburg. You haven't had to go out and buy anything from other people?**

A. For this particular equipment, you mean?

Q. Yes, yes.

A. The No. 2 equipment?

Q. Yes.

A. No, we don't buy anything for the No. 2 for their part of the equipment. There are other parts, the paint supply and stuff, which we still buy outside.

Q. But nothing for the equipment that they furnished?

A. No, we don't buy anything." (Emphasis ours.)

Also, according to its answer to Interrogatory 11 (P.A. 47), Defendant also supplies all technical and engineering services as a part of the fees paid by each licensee.

This Court in relying on its decision in the case of *Carbice Corporation* v. *American Patents Development Corp.* (1931), 283 U. S. 27, said in *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 463 (1938):

"The distinction upon which The Barber Company

thus rests is without legal significance. The Court held in the *Carbice* case that the limitation upon the scope or use of the patent which it applied was 'inherent in the patent grant.' It denied relief, not because there was a contract or notice held to be inoperative, but on the broad ground that the owner of the patent monopoly, ignoring the limitation 'inherent in the patent grant', *sought by its method of doing business to extend the monopoly to unpatented material used in practicing the invention.* By the rule there declared every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited. *It applies whether the patent be for a machine, a product, or a process. It applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly. Nothing in Leeds & Catlin Co.* v. *Victor Talking Machine Co., 213 U. S. 325, limits it.*'" (Emphasis ours.)

Defendant here under the guise of a patent license (but not under any spelled out patents) to use its coating system was successful in getting over 700 licensees to lease equipment from it which in every instance included a large number of unpatented commodities, and replacements thereof as well as all services. It necessarily stifled competition as to such staple commodities, since the price paid by its licensees was inclusive as to such commodities, and there was no reason why its licensees should acquire such commodities elsewhere when they had to pay for them anyway as a part of Defendant's package deal.

Defendant Since the Inception of Its Leasing Program Has Tied Patent Licenses to Equipment Leases; and Its 1953 Attempted Purge Was a Sham Contrived After It Had Already Dominated the Market With Existing Leases.

Since the commencement of licensing on electrostatic spraying in 1944, Defendant has employed a leasing system which, in its basic essentials, has remained intact (Int. 170 (P.A. 74)). Typical forms of agreement that were admittedly used by Defendant (R.A. 45 (P.A. 201)) are to be found at P.A. 114-151. Each of these agreements entered into by Defendant contained a provision to the effect that such agreement sets forth the entire agreement including all warranties.

In each instance, the Defendant prepares the license and lease and submits it to the prospective licensees (R.A. 44 (P.A. 201)). These licensing and leasing forms are not submitted for or on behalf of any particular licensee (R.A. 45 (P.A. 201)). Defendant does not sell any equipment to users (R.A. 1 (P.A. 194)). Also there is no dispute here about Defendant having always joined or tied with its patent licenses equipment leases, as is evident from the following:

Defendant admits (R.A. 71 (P.A. 205)), that "in granting its licenses in the airless electrostatic coating field it has not only granted licenses under its letters patent in suit, but has also joined with such licenses leases for equipment furnished by the defendant and has at all times maintained title to all equipment it has furnished its licensees under its agreements with them and in no case prior to the filing of this suit has it ever actually granted a license without the license being accompanied by a lease of equipment."

Defendant's wrongfully tied in patent licensing and

equipment leasing program was so completely established by Defendant by 1944 that the momentum thereof was carried over into the licensing and leasing of its No. 2 system beginning in 1950 (Int. 85 and 86 (P.A. 58)). Defendant's Vice President, Harold Ransburg, testified (P.A. 433) that Defendant was established in the electrostatic coating field and was able to take advantage of the momentum afforded by its establishment in that field. Also, at page P.A. 610, Mr. Howarth testified that since the filing of this suit in 1956, Defendant has pursued without change the same leasing program that it had before the suit was filed.

In 1953, Defendant, apparently concerned with the anti-trust aspects of this unequivocal tie-in, attempted to pay lip service to the anti-trust laws by notifying licensees that Defendant would be willing to license under the process alone, at a slightly reduced monthly fee, if the licensee would return all Defendant's leased equipment to it. There was to be no return of the initial fee of thousands of dollars ($5,000 to $40,000, R.A. 38 (P.A. 200)) which the licensee had paid to the Defendant at the time of installation (P.A. 542). Such fee had admittedly fully compensated Defendant for all of its costs on such equipment (Int. 10, (P.A. 47)). Typical form letters, (P.A. 542, 546-547) offering this proposed modification will be found on pages P.A. 730 and 731.

As indicative of the fact that it was recognized that this form letter had been adopted in an effort to circumvent the anti-trust laws, one licensee, Altex Corporation (P.A. 546), wrote Defendant on July 28, 1953 as follows:

> " 'The letter *proposes a change of contract no doubt to conform with precedent set up recently in the Patent Courts*, but since the expression in your letter is oversimplified, we would appreciate your sending us a rough draft of the proposal you are making to others'." (Emphasis ours.)

In this respect, Harold Ransburg testified (P.A. 547, 548), that Defendant was concerned because of the "IBM situation".

No licensee ever took advantage of the offer allegedly expressed in these letters (R.A. 538-9-42 and 574). Defendant admittedly never did even to this day grant a license without tieing to it a lease of equipment (R.A. 44, R.A. 84(a), (b) (P.A. 201, 210)). At least one licensee, Webcor, branded the proposition "ridiculous" (P.A. 826). Defendant's own salesman, Pleva, in testifying about these form letters said (P.A. 464-5, P.A. 621), he could not give customers "any good answers" for them.

The best evidence of the existence or non-existence of an alternative plan under which a user could have a choice between taking the Defendant's equipment and not taking the Defendant's equipment is in the testimony of the licensees and the prospective licensees. *The only testimony derived from Defendant's customers and prospective customers was taken by Plaintiff on deposition. Defendant did not call any of its hundreds of licensees as witnesses. Prospective licensees, in their depositions taken by Plaintiff, testified that they had no knowledge of such an alternative* (P.A. 634, 636, 651).

The reason why Defendant, whose primary business was selling licenses (P.A. 539) did not call any of its own licensees as witnesses is evident from the following unequivocal statement by Defendant's Sales Manager, Howarth, (P.A. 574):

> "Q. I would take it then from your answer that as far as the airless No. 2 system is concerned *you know of no instance where your company granted a license and the licensee was permitted to use its own or someone else's airless electrostatic equipment.*
>
> A. That is right." (Emphasis ours.)

The obvious reason why no new licensee ever acted on

Defendant's proposed alternatives of its 1953 letters is that the concern taking the license would have to pay an arbitrary initial fee of forty percent of what it would have to pay if it took the equipment, and also it would not get the benefit of any replacements or engineering services (P.A. 599-600). (See Pricing Guide of July 15, 1953; (P.A. 860)).

Thus, the 1953 attempted purge by the Defendant was merely window dressing contrived expressly in an effort to circumvent the anti-trust laws, *Barber Asphalt Corp., et al.* v. *La Fera Grecco Contracting Co. et al.*, 116 F. 2d 211, 215 (3rd Circuit 1940).

Below a point was made that Defendant's licensees could cancel the agreements on 30 days' notice. The Court, however, ignored the fact that any licensee cancelling the agreement would also cancel the lease coupled thereto. Thus, there was an economic deterrent to cancelling the license as the licensee would lose all of its substantial initial investment of thousands of dollars (P.A. 542) covering the entire cost of the leased equipment.

Further, the Court below ignored the fact that Defendant had a powerful club to force licensees in line, in that Defendant could after three years (P.A. 118), cancel the agreement for any reason at all no matter how arbitrary.

In *Hartford Empire Co.* v. *U. S.*, 323 U. S. 386, 449 (1945), the Court aptly characterized as illegal leasing agreements of the character here involved when it said:

> "The leasing of patented machinery or instruments lends itself particularly to the creation and maintenance of monopoly and to the extension of monopolistic effects far beyond the life and scope of the controlling patent or patents."

The Defendant's licensing operations must be viewed in their entirety, and not by way of piecemeal examination

of the component parts as was done by the lower Courts herein. *American Tobacco Co.* v. *U. S.*, 147 F. 2d 93, 106, 107 (C. A. 6, 1944); Aff'd 328 U. S. 781. *United States* v. *Patten*, 226 U. S. 525, 544 (1913).

It is, of course, *unnecessary* that the agreement complained of contain an expressed restraint of trade in order to constitute a violation of the Clayton Act since "*the actual realistic effect on competition is important.*" Such law is well established by the United States Supreme Court in the case of *United States Shoe Machinery Corporation et al.* v. *United States*, 258 U. S. 451, 457 (1922).

Decision Below Is in Conflict With That of the Ninth Circuit.

With a closely parallel fact situation, the Court of Appeals for the Ninth Circuit in 1957 decided the case of *Stearns* v. *Tinker and Rasor*, 252 F. 2d 589 (C. A. 9, 1957). That case involved a patent licensing arrangement under which the patent owner leased equipment including a high voltage power supply and other unpatentable parts. The evidence shows that the patented component of the combination constituted about 10% of the cost of the entire system. In finding this lease arrangement a violation of the Clayton Act, the Court held, at page 603:

> "Here, the lease requires the taking of both patented and unpatented parts, which of necessity has the actual realistic effect of restricting competition in the unpatented part."

QUESTION 2.

A patent owner, dominating an industry, in leasing equipment, cannot require the lessee to take a license under a package of unwanted patents.

The decision of the Court of Appeals herein, to the contrary, is in conflict with the 1959 decision of the 3rd Circuit in the case of American Securit Company v. Shatterproof Glass Corp., 268 F. 2d 769, 777 (1959), and this important question of law has not been settled by this Court.

Defendant's Package Licensing of Its Patents by the Subterfuge of Applicable Patents.

Defendant's position, adopted by the lower Courts, is that it merely licenses its leased or rented equipment under applicable patents and that this was not the same thing as a package license or block booking of patents. In so doing, the Courts ignored completely the *realistic effect* of Defendant's program in monopolizing the market. *The evil of block booking is that it enables a group of monopolies, whether by patents or otherwise, to be employed in such a cumulative manner that the ultimate monopoly projected on the public is greater than the sum total of the individual monopolies.*

If Defendant's position was well-founded in law, all an owner of a large group of patents would have to do in licensing them as a package would be not to list or spell out the patents licensed, and to specify merely that the license was under all patents licensor considered applicable. This would force the licensee to recognize the validity of any patents of a large group that the licensor might at any time arbitrarily indicate were applicable.

In one instance, where a licensee, Avco Manufacturing

Company was able to get *Defendant to list its patents in the agreement itself* (Pl. Ex. XXXX, P.A. 886-89), Defendant admitted that none of the 36 patents listed "covered the No. 2 system leased and licensed to Avco Manufacturing Company." This Avco-Crosley license-lease agreement is still in force and effect as shown by Exhibit E (P.A. 154) submitted by Defendant in its answer to Interrogatory 33 (P.A. 50).

According to Exhibit F (P.A. 178-181) prepared by Defendant in its response to Plaintiff's Interrogatory No. 34 (P.A. 50), Defendant, in addition to the Avco agreements, also *granted license-lease agreements to six other large companies wherein it similarly listed a large number of patents as noted, i.e.*, E. I. Dupont De Nemours & Co., Dunham Mfg. Corp., Gibson Refrigerator Co., Hoffman Mfg. Co., Scott Paper Co., and Stant Mfg. Co.

Reference to the list (P.A. 152) of form of licenses, Exhibit E, granted by Defendant, and which was submitted by Defendant as part of its answer to Interrogatory 33, reveals that the Avco Airless No. 2 system agreement was form of agreement D29 (P.A. 137). The first "Whereas" clause of this agreement was deliberately amended by letter of agreement dated January 18, 1954 (Pl. Ex. XXXX, P. A. 886) to include the 36 patents listed in Exhibit B (P.A. 891) as covering the leased "Process" even though as now admitted by Defendant, (R.A. 90(b), (P.A. 211)), none were applicable or covered the licensed process.

The fact that this was done deliberately is evident from the following testimony of Harold Ransburg, Vice President in charge of sales (P.A. 475-6):

> "Q. (Interposing.) *Were you aware of the fact at that time you did not have a single patent on airless atomization that was applicable to the installation that*

was involved in this agreement of Plaintiff's Exhibit XXXX? Were you aware of that fact?

A. What is the date of that letter?

Q. January 18, 1954.

A. *Yes, I am aware of that.*" (Emphasis ours.)

Attempted Patent Block Booking Purge.

Just before the trial in December, 1958, the Defendant attempted unsuccessfully by correspondence in October, 1958 (Def's Ex. 41, Pages 965, 6, 7) to *purge itself* of its wrongdoing in its aforesaid agreement with Avco. In its reply of October 7, 1958 (P.A. 966), Avco's counsel Redfield said:

> "Your letter of October 1 puzzles me. I have a note in my file indicating that I had insisted, probably at our conference on January 6, 1954, that the first 'Whereas' clause specify the patents and applications covering the No. 2 process so as to tie down the term 'said process' as used in the agreement to what is described and claimed in the patents. *Apparently what was done was to include a general list of all patents you owned in Exhibit A, which was not responsive to my request.*" (Emphasis ours.)

Defendant thus effectively extended the monopoly it had in such patents so as to embrace a Process and system not in any way covered by its patents; and its attempted belated purge many years after the execution of the agreement did nothing toward dissipating the effects of its wrongdoing.

Thus, contrary to the lower Courts' findings, Defendant in some 7 of its lease-license agreements, did list patents, but more important it is apparent it was Defendant's practice, (especially, as evidenced by the Avco amended agreement (P.A. 891)) to block book patents that were not even applicable. This was well calculated to and did overwhelm the field into recognizing in bulk Defendant's patents; and thus, in effect, extended Defendant's monopoly beyond the scope of such patents.

Decision Below Conflicts With That of Third Circuit on Package Licensing.

The decision below as to package licensing is in direct conflict with that of the recent 1959 decision of the Third Circuit in the case of *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (1959). Moreover, this question of package licensing or block booking of patents, as such, has not been specifically settled by this Court. In the *Securit* case the Court said at page 777:

> "Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, *he employs one patent as a lever to compel the acceptance of a license under another.* Equity will not countenance such a result. We conclude that the court below committed no error in finding that the defense of misuse asserted by Shatterproof is a valid one." (Emphasis ours.)
>
> "We conclude also, and quite apart from all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue 'in full force and effect to the expiration of the last to expire of any' of Securit's patents set out in 'Schedule A' *constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit.* Indeed the expiration clause of the contract works an 'aggravating hardship' on the licensee as Judge Leahy stated, in that it demands the renunciation of all patents, whether wanted or unwanted under the license." (Emphasis ours.)

In the instant case, Defendant package licensed its patents by specifically listing its patents in at least seven agreements, noted above, even though such patents were not applicable and, hence, unwanted. It showed by this pattern that when it licensed under applicable patents it meant thereby a package of its patents, regardless of

whether they covered the licensed process or system. This is clearly established by its wrongful and deceptive practice in the illustrative case of the aforesaid Avco Agreement. Thus, when Defendant in its licenses referred to applicable patents, it did not mean patents covering the licensed system, but rather all of its patents relating in any way to the electrostatic coating system irrespective of whether they covered such system or not.

Such a wrongful extension of its patent monopoly to unpatented leased equipment is clearly a violation of the antitrust laws; and it was so held in the *Securit* case. Moreover, in line with the *Securit* case, no license-lease of Defendant was restricted to the duration of any patent (Int. 81, (P.A. 57)), and actually its agreements went on indefinitely (P.A. 625).

Accordingly, it is urged that this Court should settle the matter of illegal usage of package licensing of patents on which the present decision of the Seventh Circuit is in conflict with that of the Third Circuit in the *Securit* case.

The Court of Appeals relied upon *Automatic Radio v. Hazeltine*, 339 U. S. 827, 831 (1950). This is not an authority for the proposition that block booking or package licensing of patents is legal. There the Supreme Court noted with approval at page 831, *United States v. Paramount Pictures*, 334 U. S. 131 (1948), but stated that it *was not considering the matter of package patent licensing because the point had not been pressed below, nor was there any evidence before the Court.* The rule of law in the *Securit* case declaring package licensing illegal was not previously passed upon in the *Hazeltine* case.

QUESTION 3.

A patent owner, dominating an industry, in leasing equipment, cannot require lessees in outstanding tied-in patent licenses to grant back free licenses on "any inventions, improvements or Letters Patent, domestic or foreign, comprehending subject matter usable in any way in connection" with unpatented subject matter. The decision of the Court of Appeals herein to the contrary is in conflict with applicable decisions of this Court, including Hartford Empire Co. v. U. S., 323 U. S. 386; 324 U. S. 570 (1945).

Defendant at the Time of This Suit Had in Force in a Field Completely Dominated by It Over 130 License-Lease Agreements With License Back Provisions in Violation of the Anti-Trust Laws.

Representative license forms D23, D25, D26 and D29 of Defendant reproduced in Plaintiff's Appendix all have license back provisions in paragraph 11 entitled "Future Inventions" (P.A. 120, 127, 135 and 143). As to the agreements containing such provisions, Defendant in its answer to Interrogatory 61 (P.A. 53) listed its forms D-23 through D-29 and D-31.

A typical license back "Future Inventions" clause is quoted in the Request for Admission 19 (P.A. 196-7) and reads:

> "User agrees that in the event User acquired from any source, any inventions, improvements, or letters patent, domestic or foreign, *comprehending subject matter usable in any way in connection with methods or apparatus for the electrostatic atomization of liquids* or for coating with electrostatically atomized liquids, Ransburg shall have with respect to coating methods and apparatus employing said inventions, improvements, and the subject matter of said letters patent, a royalty-free non-exclusive, assignable license, with right to sub-license, such license to be irrevocable ex-

> cept upon voluntary surrender by Ransburg. Patents subject to Ransburg's rights under this paragraph shall include only patents acquired by User during the term of this agreement, patents acquired by User within two years following termination of this agreement, and patents whenever acquired by User which cover inventions and improvements made within the term of this agreement or within two years following its termination." (Emphasis ours.)

According to Exhibit E (P.A. 152-177) submitted by Defendant in its answer to Interrogatory 33 (P.A. 50) as of the filing of this suit on *October 11, 1956* there were still active and in force over *130* airless coating agreements with this license back provision on "Future Invention" (*forms D23 through 29 and 31 itemized in Exhibit E*). Included in this group of active licenses is the D-29 form of agreement with Avco Manufacturing Corporation (P.A. 154) as to which Defendant had correspondence (P.A. 965-967) with Avco just two months before the trial in December, 1958.

Now because Defendant in the middle of 1955, as illustrated for example by its form of agreement D35 (P.A. 145) comprising one of 45 forms used by it, adopted a printed form which did not use the "Future Inventions" clause, the Courts below erroneously and contrary to the admitted facts, assumed Defendant had discontinued all its license back provisions in its outstanding agreements.

Such is not the fact since Defendant during the pendency of the suit had active over *130* previously executed license-back agreements with such large concerns as E. I. Dupont de Nemours (P.A. 158); General Electric Co. (P.A. 161); Hotpoint, Inc. (P.A. 163); Webster Chicago Corporation (P.A. 175); and Whirlpool-Seegar Corporation (P.A. 176). Also see (R.A. 48 (P.A. 201) and R.A. 56 (P.A. 202)).

Defendant had for a period of over eight years, be-

ginning in the first of 1951 with its form D23 (P.A. 114) and through the trial forced a major part of the airless coating industry, dominated by Defendant, to agree to license back to Defendant, all inventions and improvements relating in any way to electrostatic atomization of liquids. As a consequence, all such improvements and inventions were completely stifled (R.A. 58 (P.A. 202)). As to this matter, Harold Ransburg testified (P.A. 487):

> "Q. As a matter of fact in all of these hundreds of licenses that you granted under the No. 2 system, has a single licensee actually ever made any improvement that they turned over to you?
>
> A. As a matter of fact, a normal licensee has never to my knowledge.
>
> Q. There was not any incentive for them to do it, was there?
>
> A. Only to improve their own operation.
>
> Q. *But they would have to give you free rights so you could license their competition, wouldn't they?*
>
> A. *That is correct.*" (Emphasis ours.)

The Defendant used the "Future Inventions" clauses not to pass along the benefits of any inventions made by others, but to regiment the industry. Defendant forced the acceptance of such "Future Inventions" upon the trade. As testified to by Mr. Hubbard, attorney for Hotpoint (P.A. 649) Defendant would not grant a license without having some grant back provision in it.

Mr. Hubbard testified (P.A. 649, 650):

> "Q. Did you endeavor to obtain an agreement without any such provision as to future inventions?
>
> A. Yes, we did.
>
> Q. With what results?
>
> A. Negative results. Now, I might say that such negotiations was carried on orally at this meeting in Indianapolis that I spoke of.
>
> Q. Well, can you tell us what transpired in that discussion—that is, what you said and what Mr. Ransburg said? That is, as you recall it?

A. I suspect I tried to preach to them a little bit about what I considered a rather killing-the-goose-that-laid-the-golden-egg kind of a provision.

Generally speaking, the General Electric Company has a rather liberal licensing policy. We do not require and, as a matter of fact we steer away from, the so-called grant back provisions and I have probably been indoctrinated in that philosophy. So our discussion was a very friendly one and a rather long one.

Mr. Downer, as I recall, *talked about the Trans-Wrap situation as being one which justified their position* and we had considerable argument about that. The net result was, however, that *I did not persuade them to eliminate this patent provision* and we did negotiate that one which I thought was a satisfactory substitute for theirs." (Emphasis ours.)

In another instance, the General Electric Company had objected to the inclusion of such a "Future Inventions" clause. In order to modify this clause, Defendant insisted upon an increased initial fee from $5300 to $9300 (Px.-KKK, P.A. 819).

The attitude of the trade with regard to improvements is clearly reflected in the matter in dealings with the General Electric Company. In a letter dated December 16, 1953, a representative of Defendant wrote to Mr. Harold Ransburg (Px.-II-4, P.A. 743), because a representative of General Electric had expressed the need for some sort of triggering system on the individual bells of the triple head unit commercialized by the Defendant. In that letter, the Defendant's representative said: *"He realized that the means of marketing which we had was detrimental to getting any further work done on the equipment* • • •."

The Courts have long recognized the susceptibility of such grant-back provisions to anti-trust violations. In *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*,

329 U. S. 637, 646-7 (1947), the Supreme Court in this regard said:

> "As patents are added to patents the whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and industrial monopoly perfected and maintained. Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee."

In a case subsequent to the *Transparent-Wrap* case, *United States* v. *General Electric Co.*, 80 F. Supp. 989, 1006 (D. C., S. D. New York 1948), the Court found *that against the background of market domination, the transfer of future patent rights as a condition for receiving a license was per se a violation of the Anti-trust laws.* The Court said:

> "The employment of basic patents, or patents which may be basic, to compel the transfer of future patent rights, is condemned *per se*, when practiced on a scale such as found in this suit."

The scope of the license-back provision is immaterial in determining anti-trust law violations. Thus, a non-exclusive grant-back provision for future inventions in a market dominated by the licensor was held to be an anti-trust violation in *United States* v. *General Electric Co.*, 82 F. Supp. 753, 816 (D. C., N. J., 1949).

The defendant herein relied upon this Court's decision in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U. S. 637 (1947), that "the inclusion in the license of the condition requiring the licensee to assign improvement patents is not *per se* illegal and unenforceable." However, in that case there was no showing of dominance or monopolization of the market or restraint of trade, as

are here involved in this case. Moreover, the Court there said, pages 647-648:

> "Congress, however, has made no specific prohibition against conditioning a patent license on the assignment by the licensee of improvement patents. But that does not mean that the practice we have here has immunity under the anti-trust laws. Indeed, the recent case of *Hartford Empire Co.* v. *United States*, 323 U. S. 386, 324 U. S. 570, dramatically illustrates how the use of a condition or covenant in a patent license that the licensee will assign improvement patents may give rise to violations of the anti-trust laws."

It is submitted that the aforesaid *Transparent-Wrap* decision, 329 U. S. 637, affords no justification for the decision below holding that Defendant was not in violation of the anti-trust laws. Such holding is in conflict with this Court's decision in *Hartford Empire Co.* v. *United States*, 323 U. S. 386; 324 U. S. 570 (1945).

QUESTION 4.

A patent owner dominating an industry in leasing equipment of licensed Letters Patent fraudulently procured from the Patent Office, is barred from enforcement of such patents.

The decision of the Court of Appeals herein is contrary to the decisions of this Court in Precision Co. v. Automotive Co., 334 U. S. 806, 819 (1945); Hazel Atlas Co. v. Hartford Co., 322 U. S. 238, 250 (1944); and Keystone Driller Co. v. General Excavator Co., 290 U. S. 240, 246 (1933).

Fraudulent Procurement of Starkey et al. Patents, Pending Over Ten Years, Was Part of Defendant's Illegal Monopoly of Market in Restraint of Trade.

It is the position of your petitioner that Defendant, well knowing that it had no patent protection covering its No. 2 rotary system (as to which it had granted *171* (Int. 40 (P.A. 51)) licenses-leases in a field dominated by Defendant without the benefit of any patent covering such system), fraudulently evolved a scheme to continue its monopolization of such field by a succession of wrongfully procured invalid letters patent (P.A. 39). This scheme necessitated making false representations by affidavits to the Patent Office, in order to get the Starkey patents allowed with dominating claims, which would create the false impression that Defendant *actually commercialized* the stationary type systems of the then pending parent application of the Starkey patents (Pet. App. 76-81).

The fact that Defendant knew it had never commercialized any of the structures illustrated in the Starkey *et al.* patents cannot be in dispute, in view of Defendant's unequivocal admissions herein (R.A. 30 (P.A. 199); R.A. 37 (P.A. 200); R.A. 2 (P.A. 194); Int. 149 (P.A. 70)).

During the prosecution of the Starkey method application, DX 5A-5B pages 206 and 221 (Pet. App. pages 74-75), the applicants after final rejection and on appeal to the Patent Office Board of Appeals repeatedly urged as follows, that their invention resided in using a single field as the "sole agent" for effecting atomization:

> "The heart of applicants' invention lies in the concept of employing a *single* electrostatic field which acts as the *sole* agent to atomize paint, disperse the particles formed by atomization, and deposit these particles on the work." (Emphasis in original.)

For some eight years after the application was filed, only one narrow claim had been indicated as being allowable by the Patent Office. It was then that the Defendants submitted an affidavit in the name of Gilbert Isgrigg (Dx-5B,OO, 303-305, Pet. App. 76) attempting to show certain commercial advantages for the subject matter of the application. The affidavit alleged that Mr. Isgrigg's employer, Hamilton Manufacturing Corporation of Columbus, Indiana, had previously employed the old air-type Ransburg No. 1 process and that on or about November 1952 the No. 1 equipment was replaced by new equipment from the Ransburg Company.

Also, in this respect, among others, the Howarth affidavit filed March 20, 1953 (Dx-5B, pp. 306-308, Pet. App. 79) identified the No. 2 licensed structures as being a commercial success of the Starkey *et al.* invention. In the Patent Office appeal brief filed May 25, 1953, it was represented as follows (Dx.-5B, p. 343, Pet. App. 82):

> "The affidavit of Donald C. Howarth testifies to the wide acceptance and commercial success of applicants' invention on industrial production lines. At the date of the affidavit, *78 licensees* including such companies as General Electric, Du Pont, and Studebaker, had paid substantial initial sums and were making con-

tinuing monthly payments for the right to use 101 production units *embodying the invention.*" (Emphasis ours.)

Now the fact of the matter was, as Defendant well knew in its representations to the Patent Office, that the installation at the Hamilton Company Plant (P.A. 878) was a No. 2 system and that all of its No. 2 system installations use a *rotating head or centrifugal atomizing head,* as distinguished from the Starkey *et al.* patent stationary head system wherein *the field alone does all the atomizing* (Int. 144(e) P.A. 68, P.A. 959-961).

Further it was admitted by Defendant that if the rotation of its centrifugal-head or applicator (which rotated at about 900 R.P.M.) of its commercial No. 2 system was arrested, the electrostatic field alone would not effect coating or painting as the paint would then drip on the floor (P.A. 350, P.A. 270, 350).

Following the foregoing false showing by Defendant, through affidavits, the Patent Office Board of Appeals after repeated appeals finally allowed the method claims in the application. In so doing that Board said (Px 5B p. 397, Pet. App. p. 84):

> *"We have examined these affidavits with care and we find that they establish beyond question that the spray painting process to which the claims are directed has achieved commercial success."* (Emphasis ours.)

After Defendant was successful in fully overcoming the resistance of the Patent Office, it was not satisfied with one patent, but without any divisional requirement by the Patent Office (R.A. 25, 26 and 28 (P.A. 198)) it arbitrarily divided out in 1954 the apparatus claims so as to prolong its patent monopoly with a second patent, *i. e.,* 2,794,417, based on the same false representations made to the Patent Office.

Patent monopolies, to be enforceable, must spring from backgrounds free from fraud or other inequitable conduct as held by the Supreme Court of the United States in the case of *Precision Co.* v. *Automotive Co.*, 324 U. S. 806, 815, 816 (1945). Also see *Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240, *Hazel Atlas Co.* v. *Hartford Co.*, 322 U. S. 238, 250.

Here, it is doubly important that the asserted monopoly "spring from backgrounds free from fraud or other inequitable conduct." Moreover, the assertion of invalid patent claims as a basis for the maintenance of an illegal monopoly in restraint of trade is definitely within the purview of the anti-trust laws, *Kellogg Co.* v. *National Biscuit Co.*, 71 F. 2d 662, 666 (1934).

CONCLUSION.

The Petition should be granted,

(a) to protect the public interest against Defendant's stifling and dominating grip on the important electrostatic coating segment of the painting industry,

(b) to settle the questions of anti-trust law, raised herein, as to illegality of Defendant's tied-together patent licensing and equipment leasing practices, and

(c) to throw open to the public the subject of the Defendant's fraudulently applied for and misused patents.

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